IN THE

Supreme Court of the United States.

On Appeal from the U. S. Circuit Court for the District of Indiana.

THE INDIANA MANUFACTURING COMPANY,
Appellant (Complainant below),
vs.
ARMIN C. KOEHNE, *et al.*,
Appellees (Defendants below.)

No. 177.
IN EQUITY.
October Term,
1902.

BRIEF FOR APPELLANT.

May it Please the Court:

The pages noted thus (p. ....) are those of the printed record. Quotations are indented.

The record in this case consists of the bill (pp. 1-16); the temporary injunction *pendente lite* (p. 18); an amendatory and supplemental bill bringing in the taxation made after the original bill was filed (pp. 18-20); demurrers by the defendants (pp. 21-23); the decree by the Court dismissing the bill for want of equity (p. 24); and the various papers necessary to the taking and perfecting of the appeal (pp. 24-26.)

STATEMENT OF THE CASE.

The broad and important question presented for decision is:

I. Are Letters Patent of the United States taxable under State or Municipal authority?

This question in this case will also be presented in the following form:

II. Is the stock of a corporation which consists wholly of Letters Patent of the United States, taxable as stated?

A second question raised here is:

III. Was such a suit as this maintainable in a United States Circuit Court, or should recourse have been had to the Courts of the State of Indiana?

Incidentally to this second question, we may be asked:

IV. Does the controversy, under the circumstances involved, present a case for equitable relief, or ought remedies to have been sought at law?

The court below filed no written opinion; but indicated, in announcing his decision orally, that on the *first* and *main* question his views were with the complainant, but on the *second* question he considered that the law was with the defendants, and therefore sustained the demurrers and dismissed the bill for want of equity. These questions will therefore be discussed in inverse order, as the questions of jurisdiction and procedure are first to be determined.

ASSIGNMENT OF ERRORS.

The following (p. 25) are the errors assigned:

First. That the court erred in holding that the complainant had an adequate remedy at law.

Second. That the court erred in holding that the complainant had a suitable and adequate remedy under the laws of the State of Indiana.

Third. That the court erred in holding that the bill of complaint herein is without equity.

Fourth. That the court erred in sustaining the demurrers of the defendants.

Fifth. That the court erred in not overruling the demurrers of the defendants.

Sixth. That the court erred generally in its decision and decree in this case, and particularly in this, in dismissing complainant's bill of complaint.

ARGUMENT.

III. Was such a suit as this mantainable in a United States Circuit Court, or should recourse have been had to the Courts of the State of Indiana?

The case is one arising "under the Constitution and Laws of the United States," so that a *federal question* is involved; and (p. 16) "the sum or value in dispute exceeds, exclusive of interests and costs, the sum or value of two thousand dollars."

The bill alleges, in effect, that the taxation in question was authorized and required by "certain statutes" or laws "of the State of Indiana," which laws are claimed to be "in contravention of the Constitution and Laws of the United States" (p. 3) and therefore void, because patent rights granted by the United States can not be subjected to State taxation.

It further appears that the obligation of the *contract* existing between the inventor and the general public is impaired by such taxation.

A party having a grievance of this character, involving a Federal question, has a right to go into a Federal Court for the purpose of having such question there determined, under the act of March 3, 1887, as corrected by the act of August 13, 1888, which act (second edition supplement to Revised Statutes, p. 611), contains the following:

> . . . . the circuit courts of the United States shall have original cognizance, concurrent with the courts of the several States, of all suits of a civil nature, at common law or in equity, where the matter in dispute exceeds, exclusive of interest and costs, the sum or value of two thousand dollars, and arising under the Constitution or laws of the United States, or treaties made, or which shall be made, under their authority. . . .

There are many decisions affirming the jurisdiction of the United States Courts where Federal questions are involved. The Circuit Court of the United States for the Eastern District of Louisiana, by PARDEE, C. J. (BILLINGS, D. J., concurring), said:

> The second plea is to the jurisdiction of the court, on the ground that both complainant and defendant are citizens of Louisiana. The *federal question* involved in this suit, to-wit, the *constitutionality* of certain articles of the constitution of the State of Louisiana under which the defendant claims and exercises rights which impair the validity of complainant's contract, making a case in equity arising under the Constitution and laws of the United States, gives the court jurisdiction. This is no longer an open question.
>
> *Crescent City, &c. Co.* v. *Butchers' Union, &c. Co.*, 12 Fed. Rep., 225–226.

In the case of *Starin et al.* v. *New York City*, 115 U. S. 248 (29 L. ed. 388), this Court stated the rule, and collated the authorities, as follows:

> The character of a case is determined by the questions involved. *Osborn* v. *Bank of U. S.*, 9 Wheat. 824. If from the questions it appears that some title, right, privilege or immunity, on which the recovery depends, will be defeated by one construction of the Constitution or a law of the United States, or sustained by the opposite construction, the case will be one arising under the Constitution or laws of the United States, within the meaning of that term as used in the Act of 1875; otherwise, not. Such is the effect of the decisions on this subject. *Cohens* v. *Virginia*, 6 Wheat. 279; *Osborn* v. *Bank of United States*, 9 Wheat. 824; *The Mayor* v. *Cooper*, 6 Wall, 252; *Gold Washing & Water Co.* v. *Keyes*, 96 U. S. 201; *Tennessee* v. *Davis*, 100 U. S. 264; *Railroad Co.* v. *Mississippi*, 102 U. S. 140; *Ames* v. *Kansas*, 111 U. S. 462; *Kansas Pacific* v. *Atchinson R. R. Co.*, 112 U. S. 416; *Provident Savings Soc.* v. *Ford*, 114 U. S. 641; *U. Pacific R. R. Removal Cases*, 115 U. S. 11.

Even in cases where the jurisdiction of a U. S. Court depends only upon diverse citizenship of the parties, and no constitutional question is involved, its equitable jurisdiction cannot be ousted by the fact that a remedy at law may exist under State statutes:

In the case of *McConihay* v. *Wright*, 121 U. S., 201 (30 L. ed. 932), it was contended that under the statutes of West Virginia an action in ejectment might have been maintained,

and that, therefore, the case was not one of equitable jurisdiction because the complainant had a complete and adequate remedy at law. This Court held that:

> Admitting this to be so, it, nevertheless, cannot have the effect to oust the jurisdiction in equity of the courts of the United States as previously established. That jurisdiction, as has often been decided, is vested as a part of the judicial power of the United States by the Constitution and Acts of Congress in execution thereof. Without the assent of Congress that jurisdiction cannot be impaired or diminished by the statutes of the several States regulating the practice of their own courts. Bills *quia timet*, such as the present, belong to the ancient jurisdiction in equity, and no change in State legislation giving, in like cases, a remedy by action at law, can of itself, curtail the jurisdiction in equity of the courts of the United States. The adequate remedy at law, which is the test of equitable jurisdiction in these courts, is that which existed when the Judiciary Act of 1789 was adopted, unless subsequently changed by Act of Congress.

This is reasonable. If it were otherwise, United States Courts might be ousted of their jurisdiction in equity in all cases by the simple expedient of passing a State statute something as follows:

> "Be it enacted, &c., that a court, to be known as the . . . . . Court of the State of Indiana, is hereby established to try all cases of which the Circuit Court of the United States for the District of Indiana might otherwise have equitable cognizance."

The untenability (if not absurdity) of the proposition can certainly need no further illustration.

Likewise where other questions are involved jurisdiction will be maintained. This Court—in a somewhat different connection—has said:

> Nor is it any objection that questions are involved which are not all of a Federal character. If *one* of the latter exists—if there be a *single* such ingredient in the mass—it is sufficient. That element is *decisive* upon the subject of jurisdiction.
>
> *Mayor, &c. of Nashville* v. *Cooper*, 6 Wall, 254 (18 L. ed. 851.)

The foregoing seems to be conclusive in respect to the jurisdiction of a United States Circuit Court to try a case involving the questions at issue.

IV. Does the controversy, under the circumstances involved, present a case for equitable relief, or ought remedies to have been sought at law?

Under the statute above referred to complainant had, at its own election, the clear right to bring its proceedings in the Federal Court. Having that right, it must bring its action in a *form* to enable the Court to adequately act concerning the subject-matter. From the nature of things a suit at law could not be effective in a Federal Court in a case like this. The bill (pp. 14-15) alleges:

> And your orator further shows unto your honors that the defendant Armin C. Koehne is the Treasurer of Marion county, Indiana, whose duty it is as such Treasurer, under the laws of the State of Indiana, to receive and collect taxes for the said State of Indiana, and also for Marion county in said State, and also for the city of Indianapolis within said county, and also for the School Board of the city of Indianapolis, Indiana. That a large proportion of the amounts received and collected by the said defendant as Treasurer, as aforesaid, are for and on account of and for the benefit of the *State of Indiana*, a sovereign State, and one of the United States, and that under the Constitution and laws no suit can be maintained against the State of Indiana. That it is a part of the duty of the said defendant Armin C. Koehne, as aforesaid, to pay over *into the Treasury of the State of Indiana* a large proportion of the amounts so received and collected by him as taxes, and, therefore, that if said amounts are so collected and received and paid over, they will become mixed with the moneys of the said State, and thus *be beyond reach of any process of this or any court*, and irrecoverable, *and that great and irreparable injury will result to your orator if such unlawful collection and paying over as aforesaid be not prevented.* Further that were it possible to recover such moneys after payment a *multiplicity of suits* would be necessary.

A suit in equity, therefore, was not only a proper suit under the circumstances, but the *only* effective kind of suit which could be brought in the Federal Court, to which complainant, with its Federal question, had the right to go.

The true rule for the application of equitable remedies has been laid down by this Court, and is well summarized in the following:

> The absence of a complete and adequate remedy at law is the only test of equity jurisdiction, and the application of this principle depends upon the character of the *particular case* as disclosed in the pleadings. The remedy at law must always be plain and adequate, and as practical and as efficient to the ends of justice and its prompt administration, as the remedy in equity. *Watson* v. *Sutherland*, 5 Wall., 78; *Boyce* v. *Grundy*, 3 Pet., 210; *Payne* v. *Hook*, 7 Wall., 430.

The foregoing is quoted from GOULD AND TUCKER'S NOTES, Vol. 1, p. 99, and the second sentence is substantially a literal quotation from *Watson* v. *Sutherland*, and *Boyce* v. *Grundy*.

This has also long been the established rule in Indiana, as declared by its Supreme Court in 34 Ind., 124; 44 Ind., 261; 67 Ind., 448; 98 Ind., 4; 113 Ind., 26, and 130 Ind., 549, in each of which cases it has quoted with approval the above mentioned extract from *Watson* v. *Sutherland*.

How to proceed against officers acting under an unconstitutional law is indicated in the case of *Allen* v. *B. & O. R. R. Co.*, 114 U. S., 311 (29 L. ed. 200), where this Court, quoting from *Board of Liquidation* v. *McComb*, 92 U. S., 531, declared it to be

> well settled that, when a plain official duty, requiring no exercise of discretion, is to be performed, and performance is refused, any person who will sustain personal injury by such refusal may have a *mandamus* to compel its performance; and when such duty is threatened to be violated by some positive official act any person who will sustain personal injury thereby, for which adequate compensation cannot be had at law, may have an injunction to prevent it. In such cases, the writs of *mandamus* and *injunction* are somewhat correlative to each other. In either case, if the officer plead the authority of an unconstitutional law for the

non-performance or violation of his duty, it will not prevent the issuing of the writ. **An unconstitutional law will be treated by the Courts as null and void.**

It seems clear enough that if an *injunction* is a proper remedy, a *suit in equity* is a proper proceeding.

THE FACTS.

This case having been decided on demurrer, its result must be wholly dependent upon the allegations of the bill, which, of course, are to be taken as true.

From the bill it clearly appears that the taxation complained of is under a statute of the State of Indiana. This especially appears from the allegations of one paragraph of the bill (p. 3) reading as follows:

> Your orator further shows unto your honors that the State of Indiana has enacted and is attempting to enforce certain statutes requiring the taxation of "patent rights" or letters patent of the United States, the provisions of said statutes in question being comprised in the act of the General Assembly of the State of Indiana, approved March 6, 1891, which by Section 50 requires that
>
> > Every person required by this act to make or deliver such statement or schedule shall set forth an account of property held or owned by him, as follows:
> >
> > . . . . . .
> >
> > Seventh. All patent rights describing them, and giving the number of each patent, and the value of each.
>
> and which in section 53 has prescribed and enacted a form of "schedule" which all property-owners are required to follow in returning their property for taxation, in and by which said schedule the "number of patent rights and value" are required to be returned for taxation in common with other personal property. And your orator says that the said statutes of the State of Indiana requiring the taxation of "patent rights" or letters patent so as aforesaid are in contravention of the Constitution and laws of the United States, and are unconstitutional, invalid and void.

The preceding paragraph of this bill alleges that the complainant is a private corporation; that it had an original capital stock of $200,000; which was afterwards increased to

$360,000; and that certain interests in certain Letters Patent were assigned to it for and in consideration of the whole amount of its said original and increased capital stock, and

> that such interests in said Letters Patent *became* and *were* its *entire* capital stock, no portion of which was ever paid in in money or other property; that your orator *has not now* and *never has had any other or different capital stock* than that herein described; so that the entire value of the capital stock of your orator *consists and always has consisted wholly of Letters Patent of the United States, and neither includes nor represents any other matter or thing of value whatsoever.*

The bill further shows that the complainant made full return of *all* its property, of every character and description, save and except the Letters Patent in question, and has paid *all* taxes due on said property.

After making the detailed allegations in respect to the taxation for the several years complained of, the bill (pp. 13–14) continues:

> Your orator further shows unto your honors that the returns for taxation made by it in the said several years 1893, 1894, 1895, 1896, 1897 and 1898, and each and every of them, contained full and complete statements of your orator's property, and that all such property and assets without exception or reservation were fully and completely returned at their full cash value, except in so far as your orator declined to return its Letters Patent for taxation. That in so far as your orator's capital stock had or has any value whatever, it was and is solely and exclusively derived from its Letters Patent as aforesaid and not otherwise. That your orator has not now and never has had any property or assets of any description saving and excepting only the said Letters Patent which could lend or impart any value to its capital stock. *That your orator's indebtedness is now and always has been an amount largely in excess of the value of all its property and assets of every description saving and excepting only its Letters Patent.* That except for its ownership of said Letters Patent your orator would now be and would always have been *insolvent*, and its capital stock *worthless. That no money or property, of any character or description, was ever paid in to your orator, as, for, or on account of its capital stock, saving and excepting only its said Letters Patent.* And

your orator further charges and avers that these facts *are now* and ***always have been*** *well known* to the defendants, who, nevertheless, having heard that your orator was in receipt of a large income from its said patents, and that its stock was for that reason regarded as of large value by the owners thereof, without right or authority, and in usurpation of powers whereof they were not possessed, have exercised or pretended to exercise the *sheerly capricious right* to tax the Letters Patent owned by your orator under the guise and pretext of taxing your orator's capital stock, which, *as defendants at the time well knew*, had no value whatever except as it represented was derived from or consisted in your orator's said patents. And your orator avers that the assessment for taxation so as aforesaid made in each of said years was, except as to the value returned by your orator in each of said years other than said Letters Patent, **based solely and exclusively upon the value as estimated by said county board of review and said State board of tax commissioners of said Letters Patent** and of said capital stock as derived from said Letters Patent, and *not* upon any other or different value or property. All to the great and manifest wrong, damage and injury of your orator, and in defiance of your orator's rights in the premises, and in violation of the Constitution and laws of the United States.

The prayers of the bill (p. 16) are for relief from any assessment and valuation for taxation of complainant's letters patent made *directly* or *indirectly* by the defendants, or either or any of them.

If the facts thus pleaded do not raise a Federal question, it seems difficult to imagine how such a question could be raised, or upon *what* facts a Federal question could be said to be predicated.

FEDERAL FRANCHISES NOT TAXABLE.

We now come to the main question:

I. Are Letters Patent of the United States taxable under State or Municipal authority?

This Court, by Mr. Chief Justice TANEY has declared:

> *The Powers of the General Government, and of the State, although both exist and are exercised within the same territorial limits, are yet separate*

and distinct sovereignties, acting separately and independently of each other, within their respective spheres.

Ableman v. *Booth*, 21 How. 506 (16 L. ed. 169).

And Mr. Chief Justice MARSHALL said:

All subjects over which the sovereign power of a State extends, are objects of taxation; but those over which it does not extend, are, upon the soundest principles, exempt from taxation. This proposition may almost be pronounced self-evident.

McCulloch v. *Maryland*, 4 Wheat. 429 (4 L. ed. 607.)

Section 8 of Article 1 of the Constitution of the United States, enumerating the powers of Congress, includes that:

> To promote the progress of science and useful arts, by securing for limited times to authors and inventors the **exclusive** right to their respective writings and discoveries.

In pursuance of the authority thus given, Congress has enacted laws under which Letters Patent for new inventions are granted to inventors or their assignees:—and that section pertinent to the present inquiry reads in part as follows:

> SEC. 4884. Every patent shall contain . . . . . a grant to the patentee, his heirs or assigns, for the term of seventeen years, of the **exclusive** right to make, use, and vend the invention or discovery throughout the United States, and the Territories thereof.

Quoting from the grant forming part of one patent so issued, we find that the form adopted agrees with the Constitution and the statute:

> Now therefore these LETTERS PATENT are to grant unto the said The Indiana Manufacturing Company, its successors or assigns, for the term of seventeen years from the twenty-seventh day of March, one thousand eight hundred and ninety-four, the **exclusive** right to make, use and vend the said invention throughout the United States and the Territories thereof.

It will be observed that the word used in the Constitution, in the Act of Congress, and in the Patent itself, is the

word "EXCLUSIVE." A patent is a *franchise*,—an **exclusive** franchise,—to the inventor or his assignee. It is his to enjoy freely, and, like other franchises granted by the General Government, without any burdens or restrictions except such as are or may be imposed under the Constitution of the United States and laws of Congress made in pursuance thereof. Certainly such a franchise can not be subjected to the burdens of State or municipal taxation. The applicable decisions are believed to sustain this view.

In *California* v. *Central Pacific R. R. Co.*, 127 U. S., 1 (32 L. ed. 150), this Court, in considering a question essentially the same, say:

> how can it be *possible* that a franchise granted by Congress can be subject to taxation by a State without the consent of Congress? . . . . . .
> Recollecting the fundamental principle that the Constitution, laws and treaties of the United States are the supreme law of the land, it seems to us **almost absurd** to contend that a power given to a person or corporation by the United States may be subjected to taxation by a State. The power conferred emanates from, and is a portion of, the power of the Government that confers it. To tax it is not only derogatory to the dignity, but *subversive of the powers*, of the Government, and *repugnant* to its paramount sovereignty.
>
> It is unnecessary to cite cases on this subject. The principles laid down by this Court in *McCulloch* v. *Maryland*, *supra*; *Osborn* v. *Bank of U. S.*, 22 U. S., 9 Wheat., 738, and *Brown* v. *Maryland*, 25 U. S., 12 Wheat., 419, and in numerous cases since which have followed in their lead, abundantly sustain the views we have expressed. It may be added that these views are **not in conflict** with the decisions of this Court in *Thomson* v. *Union Pacific R. R. Co.*, 76 U. S., 9 Wall., 579, and *Union Pacific R. R. Co.* v. *Peniston*, 85 U. S., 18 Wall., 5. As explained in the opinion of the Court in the latter case, the tax there was upon the property of the company, and not upon its franchises or operations. 85 U. S., 18 Wall., 35.

In the great case of *McCulloch* v. *Maryland*, 4 Wheat. 316, (4 L. ed. 579), Mr. Chief Justice MARSHALL, in delivering the unanimous opinion of the Court, said:

If we measure the power of taxation residing in a State, by the extent of sovereignty which the people of a single State possess, and can confer on its government, we have an intelligible standard, applicable to every case to which the power may be applied. We have a principle which leaves the power of taxing the people and property of a State unimpaired; which leaves to a State the command of all its resources, and which places beyond its reach, all those powers which are conferred by the people of the United States on the government of the Union, and all those means which are given for the purpose of carrying those powers into execution. We have a principle which is safe for the States, and safe for the Union. We are relieved, as we ought to be, from clashing sovereignty; from interfering powers; from a repugnancy between a right in one government to pull down what there is an acknowledged right in another to build up; from the incompatability of a right in one government to destroy what there is a right in another to preserve.

. . . . . .

That the power to tax involves the power to destroy; that the power to destroy may defeat and render useless the power to create; that there is a plain repugnance, in conferring on one government a power to control the constitutional measures of another, which other, with respect to those very measures, is declared to be supreme over that which exerts the control, are propositions not to be denied.

. . . . . .

If we apply the principle for which the State of Maryland contends, to the Constitution generally, we shall find it capable of changing totally the character of that instrument. We shall find it capable of arresting all the measures of the government, and of prostrating it at the foot of the States. The American people have declared their Constitution, and the laws made in pursuance thereof, to be supreme; but this principle would transfer the supremacy, in fact, to the States.

If the States may *tax* one instrument, employed by the government in the execution of its powers, they may tax *any and every other* instrument. They may tax the mail; they may tax the mint; **they may tax patent-rights;** they may tax the papers of the custom-house; they may tax judicial process; they may tax

> all the means employed by the government, to an excess which would defeat all the ends of government. This was not intended by the American people. They did not design to make their government dependent on the States.
>
> . . . . . .
>
> The Court has bestowed on this subject its most deliberate consideration. The result is a conviction that the States have *no power*, by *taxation* or otherwise, to retard, impede, *burden*, or in any manner control the operations of the constitutional laws enacted by Congress to carry into execution the powers vested in the general government. This is, we think, the unavoidable consequence of that supremacy which the Constitution has declared.

See also *Osborn* v. *Bank*, 9 Wheat., 738 (6 L. ed. 204.)

Federal Courts are not alone in these views. The nontaxability of patents has several times been recognized and declared by State courts.

The Supreme Court of the State of Michigan, speaking by Judge COOLEY, has expressly recognized and declared that:

> Any State legislation which undertakes to limit or restrict in any manner the privilege which the Letters Patent confer is an *invasion* of the sphere of national authority, and therefore *void*.
>
> *People* v. *Russell*, 49 Mich., 617.

In this case they cited with approval *Cranson* v. *Smith*, 37 Mich., 309, in which it was said:

> In those cases where the congressional power is lawfully exercised, it is *supreme*.
>
> . . . . . .
>
> The Constitution of the United States not only allows but favors the special protection of inventors. The measure of that protection, and its conditions, can not be fixed by any power but Congress, and the remedy for abuses or defects in the legislation of that body must be found in its own revision of its own laws. It is not competent for State statutes to deal with them or to revise the national policy.

For other decisions by State courts of last resort see *post*, (pp. 18–21), where decisions from New York and Pennsylvania are quoted from and discussed.

The subject of interstate commerce has given rise to many questions which bear a strong analogy to those now under consideration, and which this Court has been called upon to consider.

In the case of *Robbins* v. *Taxing District of Shelby County*, 120 U. S. 489 (30 L. ed. 694), this Court said:

> Certain principles have been already established by the decisions of this Court which will conduct us to a satisfactory decision. Among those principles are the following:
>
> . . . . . .
>
> 2. Another established doctrine of this Court is that, where the power of Congress to regulate is exclusive, the failure of Congress to make express regulations indicates its will that the subject shall be left free from any restrictions or impositions;
>
> . . . . . .
>
> 3. It is also an established principle, as already indicated, that the only way in which commerce between the States can be legitimately affected by State laws is when, by virtue of its *police power*, and its jurisdiction over persons and property within its limits, a State provides for

—various matters not necessary here to enumerate.

Applying these principles to the present case, it may be said that the power of Congress respecting patents under the Constitution has been exercised, and it having failed "to make express regulations" respecting the taxation of patents, "indicates its will that the subject shall be left free from any restrictions or impositions"; subject, nevertheless, of course, to the *police power* of the States, as held by this Court in *Patterson* v. *Kentucky*, 97 U. S., 501 (24 L. ed. 1115), and in *Webber* v. *Virginia*, 103 U. S., 344. (26 L. ed. 265.) In the latter case the following language is used:

> It is only the right to the invention or discovery, **the incorporeal right,** WHICH THE STATE CAN NOT INTERFERE WITH.

In the case of *Philadelphia & Southern Mail Steamship Co.* v. *Pennsylvania*, 122 U. S., 326 (30 L. ed. 1200), this Court, in further discussion of these questions, used the following language:

In view of the decisions of this Court, it cannot be pretended that the State could constitutionally regulate or interfere with that commerce itself. But taxing is one of the forms of regulation. It is one of the *principal* forms. Taxing the transportation, either by its tonnage, or its distance, or by the number of trips performed, or in any other way, would certainly be a regulation of the commerce, a restriction upon it, a burden upon it. Clearly, this could not be done by the State without interfering with the power of Congress. Foreign commerce has been fully regulated by Congress, and any regulations imposed by the States upon that branch of commerce would be a palpable interference. If Congress has not made any express regulations with regard to interstate commerce, *its inaction*, as we have often held, *is equivalent to a declaration that it shall be free, in all cases where its power is exclusive; and* **its power is necessarily exclusive whenever the subject matter is national in its character and properly admits of only one uniform system.**

. . . . . .

Nor does it make any difference whether such commerce is carried on by individuals or corporations.

. . . . . .

The corporate franchises, the property, the business, the income of corporations created by a State may undoubtedly be taxed by the State; but *in imposing such taxes care should be taken not to interfere with or hamper, directly or by indirection*, interstate or foreign commerce, **or any other matter exclusively within the jurisdiction of the Federal Government.**

In *Leloup* v. *Port of Mobile*, 127 U. S., 640 (32 L. ed., 311), this Court stated that "upon the fairest and most just construction of the Constitution"

> no state has the right to lay a tax on interstate commerce in any form, whether by way of duties laid on the transportation of the subjects of that commerce, or on the receipts derived from that transportation, or on the occupation or business of carrying it on, and the reason is that such taxation is a burden on that commerce, and amounts to a regulation of it, which belongs solely to Congress.

So we say that a State has no right to lay a tax on patent rights "in any form," whether directly upon the patents themselves, as required by the Indiana statute, or upon the stock of a corporation issued for and representing such patents, for the reason "that such taxation is a burden" upon the Federal franchise granted by the Government of the United States, "and amounts to a regulation of it, which belongs solely to Congress."

In *Crutcher* v. *Commonwealth of Kentucky*, 141 U. S., 47 (35 L. ed., 649), this Court said:

> We have repeatedly decided that a State law is unconstitutional and void which requires a party to take out a license for carrying on interstate commerce, no matter how specious the pretext may be for imposing it.

We say here "that a state law is unconstitutional and void" which requires a party to pay a tax on a patent right, directly or indirectly, "no matter how specious the pretext may be for imposing it."

Attention is also called to the case *In re Sheffield et al.*, 64 Fed. Rep., 833. In this case the defendants, Sheffield and Edmunds, were arrested in a prosecution for selling patent rights without payment of a *license* ***tax*** prescribed by a statute of the State of Kentucky. The prisoners were taken before the United States Court at Louisville, on a writ of *habeas corpus*. Judge BARR discharged the petitioners, and, in the course of his opinion, made the following pertinent statements:

> Thus the question must be, can a State tax, or authorize a county or city to tax, a right—an incorporeal right—which is granted by the United States, and which, under the Constitution, can alone be granted by the United States? We think that question must be answered in the negative, under the principle settled in the case of *McCulloch* v. *State of Maryland*, 4 Wheat., 316, and the many subsequent cases.
>
> . . . . . .
>
> But **the patent right itself,** *i. e.* the right to exclude all others from the manufacture, use, or sale of the invention or discovery, which is a grant by the United States, **can not be taxed by a State.**
>
> . . . . . .

> We conclude the statutes of Kentucky, under which the petitioners, Sheffield and Edmunds, are prosecuted and imprisoned, are *unconstitutional and void.*

It is very gratifying to counsel to find, in a decision written since the greater portion of his brief was originally prepared, such a literal and exact concurrence with his views.

It is no new thing for the State of Indiana to attempt illegal forms of taxation. In 1873 it was attempted to tax the gross receipts of transportation companies. In June, 1876, Judge DRUMMOND decided that law unconstitutional.

Indiana v. *American Express Co.*, 7 Biss., 227; Fed. Cas., No. 2,071.

This brief so far has proceeded upon the assumption that the taxation complained of will be, under the allegations of the bill, treated as though made upon the patents, in effect and actually, if not nominally.

It is, however, anticipated that a strenuous effort will be made to differentiate between appellant's patents and stock, and to make it appear that in nominally taxing the latter appellees have succeeded in evading conflict with United States law. This leads us to a particular discussion of the *form* of question suggested near the beginning:

II. Is the stock of a corporation which consists wholly of Letters Patent of the United States, taxable as stated?

The authorities seem to be quite as clear on this form of the question as on the other. While the exact question involved and in the form here presented has probably not before been passed on by a Federal Court, it seems to have several times been before the Courts of last resort of some of our more important States, and has by them been most carefully considered with substantially uniform result.

The Michigan cases have already been referred to.

The case of *Commonwealth* v. *Edison Elec. Lt. Co.*, 157 Pa. St. Rep., 529, is believed to be absolutely on "all fours" with the present case, and clearly and conclusively decisive of the question. The decision is short, and reads as follows:

GREEN, J. The fourth finding of fact by the learned Court below, which is fully sustained by the testimony, declares that "thirty-five thousand dollars in cash and three thousand shares of stock were issued and paid by the defendant company to the Edison Electric Light Company of New York, for certain rights under its patents within the City of Philadelphia, and that without these rights the defendant could not carry on its business and furnish electric light to its customers." Also that "in consideration for said cash and stock paid to the Electric Light Company of New York, the defendant did not receive any tangible property whatever, but merely certain intangible rights or licenses under said letters patent." Also that "the defendant does not lease from any persons from whom said licenses were obtained any tangible property whatever, nor does it have in its possession any tangible property belonging to said persons."

This state of facts brings the case within the principle that **capital stock invested in patents or patent rights is not taxable under State laws,** as established by our decisions in the cases of

Commonwealth v. *Westinghouse Electric Co.*, 151 Pa. St., 265;

Commonwealth v. *Westinghouse Air Brake Co.*, 151 Pa. St., 276; and

Commonwealth v. *Philadelphia Co.*, 157 Pa. St., 527, in which the opinion has just been filed.

We are therefore of the opinion that the learned Court below was right in its ruling.

Judgment affirmed.

It may be said that in the Pennsylvania cases only a *part* of the stock was issued for the patents, and was, therefore, non-taxable. Counsel for appellant is unable to observe the distinction. *All* the stock *which* ***was*** *issued for patents* was held not to be taxable, and there is no intimation in the decision that if *all* the stock had been so issued that any different rule as to the remainder of it would have been recognized. In the case at bar, in fact, and according to the record, every dollar of the stock was issued for the patents, and for nothing else.

This matter has also, since the present litigation was begun, been the subject of adjudication in the courts of the State of New York.

September 7, 1897, the Supreme Court, Appellate Division, Second Department, in the case of *People ex rel. Edison Electric Illuminating Co. of Brooklyn* v. *Board of Assessors of City of Brooklyn*, held that stock of a corporation issued for patent rights was not taxable. In that case it was said:

> The relator, an electric light company, by its return to the board of assessors, and the evidence of its officers given before that board, showed that its capital stock was $3,750,000, all of which had been paid in in money, except the sum of $945,000, which was paid for patent rights.

The whole capital stock had been assessed for taxation, including that "paid for patent rights."

The Court, after giving the particulars, further said:

> On a review of the proceedings of the board of assessors by *certiorari*, an order was made by the special term wholly vacating the assessment. From that order this appeal is taken.
>
> We think the order of the special term correct. It is true that the market value of the share stock of the relator was par or better. This may have justified the conclusion that, in a certain sense, the stock of the relator was not impaired; but it did not justify, *in the face of positive evidence to the contrary*, the assumption that the capital stock, even if unimpaired, was represented by assets or property which, under the law of this state, are subject to local assessment. The exclusive privilege or franchise, under *Letters Patent of the United States*, acquired by the relator for the sum of $945,000, and carried by it at that value *was not subject to state or local taxation*.
>
> . . . . . .
>
> The order appealed from should be affirmed, with $10 costs and disbursements. All concur.
>
> 46 New York Supplement, 388.

An appeal was taken from the Supreme Court to the Court of Appeals of the State, which, on October 4, 1898, affirmed the decision of the Supreme Court, and, in the course of the opinion, said:

> The Constitution of the United States (article 1, § 8, subd. 8) conferred upon congress the power to "promote the progress of science and useful arts, by securing for limited times, to authors and inventors, the ex-

clusive right to their respective writings and discoveries." In pursuance of this power, congress enacted that patents should be issued to inventors, which should secure to them for a limited term the "exclusive right to make, use and vend the invention or discovery throughout the United States and the territories thereof." Rev. St. U. S., § 4884. Patent rights are, therefore, granted under the Federal Constitution, and necessarily for the promotion of Federal purposes. *Grant* v. *Raymond*, 6 Pet., 218, 241; *Ames* v. *Howard*, 1 Sumn., 482, Fed. Cas. No. 326; *Blanchard* v. *Sprague*, 3 Sumn., 535, Fed. Cas. No. 1,518.

The Federal purpose is primarily to stimulate genius, talent, and enterprise by holding out that encouragement which patents give, but ultimately to secure to the whole community the great advantages that flow from the free communication of secrets, processes, and machinery. The next step is that, *patent rights being created under the Federal Constitution and laws for a Federal purpose, the States are without the right to interfere with them.* The right to tax a Federal agency constitutes a right to interfere with, to obstruct, and even to destroy the agency itself, for, conceding the right of the State to tax at all, then it may tax to the point of destruction.

. . . . . .

The Federal government having the right to create the agency, it necessarily has the right to protect it, not only from destruction, but from interference from any other government, whether such interference be in the guise of taxation, or otherwise, as the power to tax involves the power to destroy, and the power to destroy may render useless the power to create.

. . . . . .

The order should be affirmed. All concur. Order affirmed.

156 N.Y., 417; 51 Northeastern Reporter, 269.

The reasoning of the foregoing opinion is logical and consistent, and is believed to be conclusive.

If it should be suggested that capital stock, although paid up exclusively by the transfer of letters patent to the company, might have a value in excess of that of the letters patent, which excess value would be taxable, while all this might be conceded, yet in this case it would not avail appel-

lee. The complaint avers that the value of the letters patent was taken into consideration in ascertaining the value of the capital stock. The assessment does not separate the amount based upon the value of the letters patent, from the amount, if any, based upon a value in excess of that of the letters patent. Under such circumstances the assessment is void as an entirety.

This was held in *Santa Clara County* v. *Southern Pacific R. R. Company*, 118 U. S., 394 (30 L. ed. 118), and upon the authority of this case by the Supreme Court of Indiana in *Hart* v. *Smith*, 64 N. E. Rep., 661.

THAT WHICH CANNOT BE DONE DIRECTLY CANNOT BE DONE INDIRECTLY.

Certainly the taxation of the stock of a corporation can, at the most, only be said to be an indirect taxation of the property of the corporation of which the stock is composed. We are not dealing now with cases where there is a special tax on stock certificates, or an arbitrary tax on the corporation for the privilege of existing, which are widely different matters.

This Court, in the case of *Handley* v. *Stutz*, 139 U. S., 417, although in another connection, defined the relations of stock and property represented thereby, saying:

> The stock of a corporation is supposed to *stand in the place* of actual property of substantial value, and as being a convenient method of representing the interest of each stockholder in such property.

It seems hardly necessary to cite authorities for the proposition that that which can not be done directly can not be done indirectly. However, the following cases, controlling of the question, which also involve illegal taxation, are called to attention.

In the "License Cases," 5 How., 504 (12 L. ed. 256), Mr. Chief Justice TANEY, in discussing the power of taxation by a State of imports, said:

> It can not be done directly, in the shape of a duty on imports, for that is expressly prohibited. And as it can not be done directly, it could hardly be a just and sound construction of the Constitution which would enable a State to accomplish precisely the same thing under another name, and in a different form.

20350

In *Brown* v. *Maryland*, 12 Wheat., 419 (6 L. ed. 678), the Court said:

> But if it should be proved that a duty on the article itself would be repugnant to the Constitution, it is still argued that this is not a tax upon the article, but on the person. The State, it is said, may tax occupations, and this is nothing more.
>
> It is impossible to conceal from ourselves that this is varying the form, without varying the substance . . . . All must perceive that a tax on the sale of an article, imported only for sale, is a tax on the article itself. . . . .
>
> So, a tax on the occupation of an importer is, in like manner, a tax on importation. It must add to the price of the article, and be paid by the consumer, or by the importer himself, in like manner as a direct duty on the article itself would be made. This the State has not a right to do, because it is prohibited by the Constitution.

In *Crandall* v. *Nevada*, 6 Wall., 35 (18 L. ed., 745), it is said:

> It is claimed by counsel for the State that the tax thus levied is not a tax upon the passenger, but upon the business of the carrier who transports him.
>
> If the act were much more skillfully drawn, to sustain this hypothesis, than it is, we should be very reluctant to admit that any form of words which had the effect to compel every person traveling through the country by the common and usual modes of public conveyance to pay a specific sum to the State, was not a tax upon the right thus exercised.

In *Philadelphia & Reading R. R. Co.* v. *Pennsylvania*, 15 Wall., 232 (21 L. ed., 146), it is said:

> It is of national importance that over that subject there should be but one regulating power, for if one State can directly tax persons or property passing through it, or tax them indirectly by levying a tax upon their transportation, every other may, ... It was to guard against the possibility of such . . . . embarrassments, no doubt, that the power . . . . was conferred upon the Federal government.

A PATENT IS A CONTRACT.

The Constitution of the United States, Section 10, Article 1, says:

> No State shall . . . . pass any . . . . law impairing the obligation of contracts.

A patent is a contract, existing between the inventor on the one hand, and the general public on the other; and is entered into under the Constitution and Laws of the United States. The consideration to the inventor is a temporary monopoly. The consideration to the public is the clear disclosure of the invention, and its free use when the monopoly —or patent—has expired.

Whitney v. *Emmett*, Baldw., 303; 1 Robb Pat. Cas., 567; Fed. Cas. No. 17,585;

Kendall et. al. v. *Winsor*, 21 How. 322 (16 L. ed. 165.)

The contract in question is of a high character,—being by no less a party than the people of this great nation, acting in their sovereign capacity, who have solemnly granted the rights in question, for a consideration.

A Canadian authority states the matter admirably:

> It is universally admitted in practice, and is certainly undeniable in principle, that the granting of Letters-Patent to inventors is not the creation of an unjust or undesirable monopoly, nor the concession of a privilege by mere gratuitous favor; but a *contract* between the State and the discoverer.
>
> . . . . . .
>
> Invention being recognized as a property, and a ***contract*** having intervened between society and the proprietor for a settlement of rights between them, it follows that unless very serious reasons, deduced from the liberal [literal] interpretation of the terms of the contract, interpose, *the patentee's rights ought to be held as things which are not to be trifled with, as things sacred in fact,* ***confided to the guardianship and to the honor of the State and of the courts.***

Barter v. *Smith*, 2 Exch. Rep. of Canada, 455, at pp. 477-478.

To permit States or municipalities to levy taxes upon these contracts would impair the obligations which have been entered into by the Government, on behalf of the people, with the inventor or his assignee.

Moreover "the power to tax involves the power to destroy."

McCulloch v. *Maryland, supra.*

The statutes of the State of Indiana, under which the acts complained of were performed, clearly are in impairment of the obligations of these contracts, and are therefore unconstitutional and void.

The question is: Shall this State statute be permitted to impair the obligation of this contract by imposing additional burdens or obligations not called for by the contract itself, or by the Constitution or the statute of the United States under which the contract was entered into?

The second paragraph, Article VI, of the Constitution says:

> This Constitution, and the laws of the United States which shall be made in pursuance thereof, . . . shall be the Supreme law of the land; and the Judges in every State shall be bound thereby, anything in the Constitution or laws of any State to the contrary notwithstanding.

Possibly this matter may be lent a new emphasis by putting the inquiry in this form: Are State or County taxing officers, acting under color of State law, to be permitted to nullify (or annex any conditions to) a contract made by the whole people of this great country through their duly chosen and legally authorized representatives?

No Court has ever affirmed the proposition into which appellees' contention resolves itself. It remained for the Attorney-General of the State of Indiana, and other Indiana State taxation officials, to seriously contend for a proposition so absurd.

> But no one in this country, however exalted in station or illustrious in character, is above the law. No State official can, in assuming the name of the State, shelter himself behind her sovereign immunity.
>
> *Southern Ry. Co.* v. *North Carolina Ry. Co.*, 81 Fed. Rep., 595.

While the fact has not much bearing upon the present case, it may be well enough to state that patents are not such monopolies as are opposed to the policy of the law, as is established by the following authorities:

Allen v. *Hunter*, Fed. Cas. No. 225;
Atlantic Works v. *Brady*, 107 U. S., 203;
Stevens v. *Keating*, 2 Webs. Pat. Cas., 181;
WALKER on Patents, Sec. 152, p. 131;
Seymour v. *Osborne*, 11 Wall., 516;
CURTIS' Law of Patents, preliminary observations.

SUMMARY.

Our positions briefly stated, are—

1. That a patent ***can not*** be taxed by a State:

a. Because it is a Federal franchise not subject to State authority.

b. Because to do so would impair a contract. Furthermore, a contract to which the United States is a party.

2. That a patent ***ought not*** to be taxed, because:

a. It has no ascertainable value.

b. It expires in a limited time; after which—actually and potentially—its value is at an end.

c. Meantime its entire value has been measured by its earnings, and has gone into and become a part of the mass of ordinary property, which is taxable, and presumably is taxed.

3. That the capital stock of a corporation, issued for and representing a patent, is to all intents and purposes, the same thing as the patent itself.

4. That to tax such stock would be the same thing as taxing the patents for which it was issued.

5. That the statutes of the State of Indiana requiring the taxation of "patent rights" contravene Federal law, and are therefore void.

6. That the acts of appellees complained of, being based upon a void law, are also void, and without force or authority, and that acts in continuation thereof, or other acts of the same character, should be prohibited and enjoined.

It is respectfully submitted that the decree appealed from should be reversed and the cause remanded with instructions to the lower court to enter a decree in accordance with the prayers of the bill of complaint.

CHESTER BRADFORD,
for Appellant.

INDIANAPOLIS, INDIANA, September 5, 1902.